

Message Text

LIMITED OFFICIAL USE

PAGE 01 HONG K 04140 280354 Z

67

ACTION EA-14

INFO OCT-01 EUR-25 ADP-00 CIAE-00 DODE-00 PM-09 H-02

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15

USIA-12 AID-20 EB-11 FRB-02 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 CEA-02 STR-08 RSR-01 /179 W

----- 055370

R 270845 Z APR 73

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 6773

TREASURY DEPT WASHDC

INFO AMEMBASSY LONDON

DEPARTMENT OF COMMERCE

LIMITED OFFICIAL USE HONG KONG 4140

FROM BARNARD FOR TREASURY/ OASIA

E. O. 11652: N/ A

TAGS: EFIN

SUBJECT: HONG KONG STERLING RESERVES AND GUARANTY AGREEMENTS

REF: HONG KONG 7433

1. HONG KONG IS STILL WRESTLING WITH PROBLEMS OF STERLING RESERVES AND, ACCORDING TO NEW HK EXCHANGE CONTROLLER, FINAL OUTCOME WILL PROBABLY BE FAR LESS SATISFACTORY FROM COLONY' S POINT OF VIEW THAN PAST AND PRESENT ARRANGEMENTS HAVE BEEN. LEAST ATTRACTIVE PROSPECT IS THE END OF STERLING GUARANTEE FOR OFFICIAL RESERVES AFTER SEPTEMBER 1973.

2. IN THE PAST MONTH, A. B. OCKENDEN, FROM THE BANK OF ENGLAND,

REPLACED BRIAN GENT AS THE HK EXCHANGE CONTROLLER, AND GENT HAS RETURNED TO THE BOE. DURING A COURTESY CALL ON OCKENDEN, HE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 HONG K 04140 280354 Z

MADE FOLLOWING OBSERVATIONS:

3. FROM RECSNT DISCUSSIONS IN HONG KONG WITH A MAN OUT FROM THE BANK OF ENGLAND, IT IS EVIDENT THAT THE U. K. FEELS UNDER NO PRESSURE TO RENEW THE STERLING GUARANTEE ON OFFICIAL RESERVES MAINTAINED BY COMMONWEALTH COUNTRIES IN LONDON AFTER GUARANTEE EXPIRES SEPTEMBER 25, 1973. ATTITUDE IN LONDON SEEMS TO BE THAT TWO DEVALUATIONS HAVE SHOWN DOLLAR TO BE NO MORE STABLE THAN POUND; THERE IS NO CASE TO BE MADE, THEREFORE, TO CONTINUE GUARANTEE OF THE SECOND IN TERMS OF THE FIRST. SINCE, FOR MOST COUNTRIES, ONLY PRACTICAL CHOICE OF RESERVE CURRENCY WILL CONTINUE TO BE EITHER POUND OR DOLLAR, THOSE WHO DO NOT LIKE THE ONE ARE FREE TO GO INTO THE OTHER.

4. WHILE ADMITTING A YET LIMITED UNDERSTANDING OF THE HK SITUATION, OCKENDEN FEELS THAT THE COLONY HAS FAR TOO LARGE A SHARE OF ITS RESERVES IN STERLING. APART FROM REQUIREMENT TO MAINTAIN MINIMUM STERLING PROPORTION (89 PERCENT) OF OFFICIAL RESERVES UNDER TERMS OF PRESENT GUARANTEE, OCKENDEN BELIEVES HK SHOULD KEEP MUCH LARGER BALANCES WITH ITS MAJOR TRADING PARTNERS. IN THE PAST THE COLONY HAS MAINTAINED EVEN MORE THAN MINIMUM 89 PERCENT IN STERLING BECAUSE HK ACCOUNTANT GENERAL DOUGLAS BLYE HAS TENDED TO IGNORE ALL OTHER CONSIDERATIONS IN FAVOR OF THE HIGHER YIELDS HISTORICALLY AVAILABLE FROM STERLING BALANCES. BLYE IS ALSO A STRONG ADVOCATE OF HK TRADITION OF ACCUMULATING MASSIVE RESERVES AGAINST A RAINY DAY, A PRACTICE THAT OCKENDEN THINKS HAS BEEN CARRIED TO AN EXTREME.

5. ON A DIFFERENT MATTER, CONSIDERING HONG KONG'S RAPID DEVELOPMENT AS AN IMPORTANT REGIONAL FINANCIAL CENTER, OCKENDEN SHARES THE VIEWS OF HIS BANK OF ENGLAND COLLEAGUES, HK BANKING COMMISSIONER JAMES PATERSON AND SECURITIES COMMISSIONER JAMES SELWYN, THAT " CERTAIN CONVENTIONS MUST BE OBSERVED IF THE COLONY IS TO MAINTAIN ITS REPUTATION AND CREDIBILITY." THIS MEANS MORE GOVERNMENT REGULATION, PERHAPS EVEN THE ESTABLISHMENT OF A MONETARY AUTHORITY, TO GET BETTER CONTROL OVER FINANCIAL MARKETS AND INSTITUTIONS. HOWEVER, OCKENDEN SAYS, HE HAS BEEN IN THE COLONY LONG ENOUGH TO LEARN THAT HK IS INDEED UNIQUE, AS SO MANY CLAIM, AND HE WILL BE IN NO HURRY TO PUSH FOR RADICAL CHANGE " UNTIL THE NEED IS RECOGNIZED." HE ACCEPTS THE GOVERNMENT'S LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 HONG K 04140 280354 Z

MENT POSITION THAT IT IS BETTER TO HAVE NO REGULATION THAN TO TRY SOMETHING THAT FAILS, WITH THE CONSEQUENT LOSS OF OFFICIAL FACE IN THE EYES OF THE CHINESE.

6. COMMENT: AS EFFECTIVE AND HIGHLY REGARDED AS WAS BRIAN GENT IN HKG AND FINANCIAL CIRCLES, ONCE OCKENDEN SETTLES DOWN IN HIS NEW JOB HE PROMISES TO BE A BIT MORE FORCEFUL THAN WAS GENT IN ASSERTING HIS VIEWS ON GOVERNMENT POLICY AND RESPONSIBILITY IN FINANCIAL MATTERS. THOSE WHO HAVE BEEN TRYING

TO INSTITUTE REFORM IN HK CAN USE SOME HELP.
OSBORN

LIMITED OFFICIAL USE
NMAFVVZCZ

*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 27 APR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973HONGK04140
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730455/aaaaizth.tel
Line Count: 119
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 HONG KONG 7433
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 08 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08-Aug-2001 by worrelsw>; APPROVED <24-Aug-2001 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 980205
Subject: HONG KONG STERLING RESERVES AND GUARANTY AGREEMENTS
TAGS: EFIN
To: DEPARTMENT OF COMMERCE
DEPT WASHDC
EA
LONDON
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

